Annual report | 1977

London Life Insurance Company | Head Office | London Canada

Serving Canadian families for over a century.

London Life

Facts at a glance

103rd Annual Report of London Life Insurance Company
for the year ended December 31, 1977

	1977	1976	% Change
New life insurance issued	**$ 3,290,398,200**	$ 3,495,320,167	(5.9)
Individual policies	**2,428,513,837**	2,146,983,332	13.1
Group policies	**861,884,363**	1,348,336,835	(36.1)
Life insurance in force	**$24,547,466,264**	$21,861,629,754	12.3
Individual policies	**16,917,324,148**	15,240,942,640	11.0
Group policies	**7,630,142,116**	6,620,687,114	15.2
Increase in insurance in force	**2,685,836,510**	2,914,770,291	(7.9)
Number of life insurance policies in force — individual	**1,800,075**	1,751,723	2.8
— group	**6,183**	5,512	12.2
Life insurance premiums	**$ 271,672,182**	$ 251,757,133	7.9
Annuity premiums	**$ 92,192,541**	$ 65,045,717	41.7
Health insurance premiums	**$ 70,471,776**	$ 60,269,316	16.9
Dividends to policyowners	**$ 67,672,066**	$ 61,639,476	9.8
Total benefits to policyowners and beneficiaries	**$ 305,347,131**	$ 264,572,019	15.4
Total assets	**$ 2,917,824,165**	$ 2,624,668,062	11.2
Net earnings on investments	**$ 218,674,146**	$ 191,311,025	14.3
Rate of return on investments (life branch excluding segregated funds)	**8.21%**	7.89%	
Earnings per share	**$6.67**	$5.98	
Dividends per share	**$2.39**	$2.24	

Contents

London Life Insurance Company

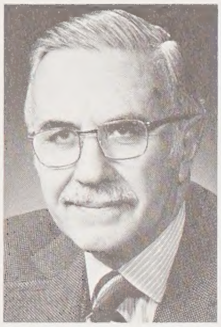
Incorporated by special act under the Laws of Canada

Head Office: 255 Dufferin Avenue, London, Canada

Pour recevoir ce rapport annuel en français, il suffit d'en faire la demande.

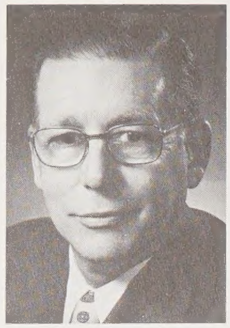
Directors

*Member of Executive Committee

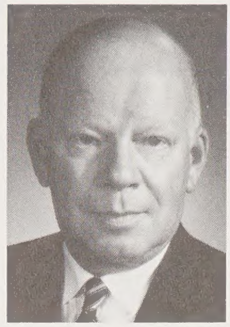


Joseph Jeffery,
O.B.E., C.D., Q.C., LL.D.*
Chairman of the Board

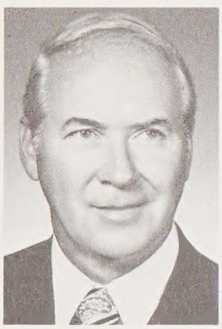
Alexander H. Jeffery, Q.C.*
President



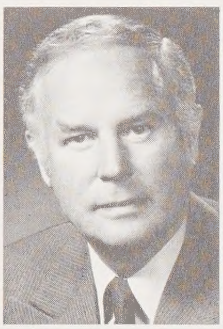
M. C. Pryce*
Executive Vice-President



Albert W. Anderson
Director



Alex E. Barron
Chairman
Canadian Tire
Corporation Limited

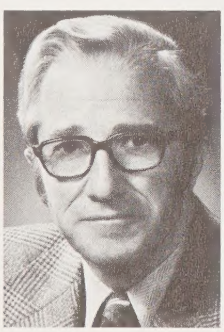


John B. Cronyn
Corporate Director
and Consultant
John Labatt Ltd.

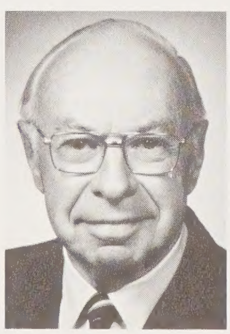
Gordon D. Jeffery
Barrister & Solicitor

Allen T. Lambert
Chairman
The Toronto-Dominion
Bank

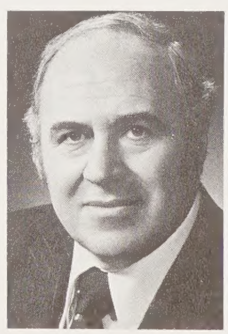
John H. Moore,
LL.D.*
Chairman
Brascan Limited



Donald Smith
President
Ellis-Don Limited



J. Allyn Taylor*
Chairman
Canada Trust



John J. Wettlaufer,
LL.D.
Dean
School of Business
Administration
University of
Western Ontario

Officers

Chairman of the Board
Joseph Jeffery, O.B.E., C.D., Q.C., LL.D.

President
A. H. Jeffery, Q.C.

Executive Vice-President
M. C. Pryce

Vice-President
and General Manager
D. S. Rudd

Vice-President and Treasurer
G. L. Corneil

Vice-President and
Executive Director of Marketing
D. E. Creighton

Vice-President and Chief Actuary
L. B. Fewster

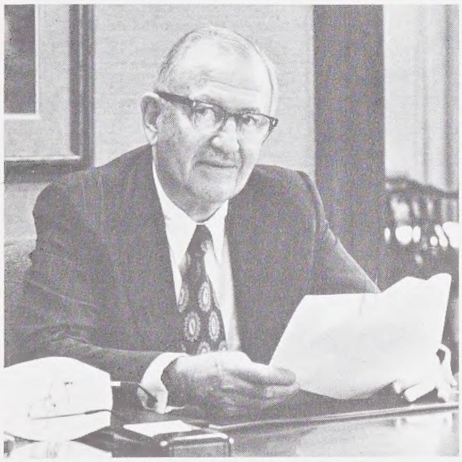
Vice-President, Group
R. G. Mepham

Vice-President and Executive Secretary
W. L. Pollard

Secretary
H. M. Ballantyne

Report of the Chairman and the President

Joseph Jeffery



Alexander Jeffery

Slow growth and continuing high unemployment are probably about the best we can foresee for the Canadian economy for the next couple of years. However, with the vast natural resources Canada enjoys, a buoyant economy eventually can be regained.

To take full advantage of this potential, we must lower the rate of inflation, bring our costs more in line with those of our trading partners, and create a positive tax environment. Governments at all levels must recognize they no longer can offer to do everything, regardless of the true ultimate costs to taxpayers and future generations. Another priority is for reasonable people across the country to clarify for all Canadians the benefits of a prosperous, vigorous country.

For many years, communications with policyowners have been in English or French, depending on the individual's preference. During 1977 the company opened a claims payment office in Montreal to more effectively administer Quebec group health insurance claims in both French and English. In response to recent legal requirements, we formed in 1977 a francization committee, composed of members appointed by home office and elected by the regional office staffs in Quebec, to review the amount of French material available for our francophone staff.

Real estate investments in the Toronto area

Development work began in 1977 on the first phase of Toronto College Street Centre Limited. Besides a complete restoration of the exterior of the historic original building, the first phase involves construction of a 10-storey apartment building atop the existing three-storey Yonge Street wing. As well as London Life's 42.5% ownership, our company — fully confident of the centre's success — will supply ⅓ of the initial $35 million in first mortgage financing. On completion in 1978, the first phase will provide 200 attractive residential suites, quarters for a computer centre of The Toronto-Dominion Bank, other office premises, and space for boutiques, food stores and home furnishing retailers. We plan to fully maximize the centre's potential as a highly attractive setting in which to live, work and shop. All phases of construction will be developed in cooperation with the City of Toronto.

Immediately south of the College Street Centre, the Chelsea Inn reported a second — and highly successful — year of operations. An additional 320 single bedrooms were made available and occupancy rates exceeded 90% for 10 months of 1977. As previously indicated, London Life has 50% ownership of the Chelsea.

Another Toronto property, Leaside Towers Apartments Limited, continues to operate profitably and has benefitted in recent years by the slowdown in new construction. The 988 units are virtually fully rented. London Life owns half the equity and also supplied the mortgage funds.

At SDI Associates Limited, London Life's wholly-owned subsidiary providing data processing services to the financial community, plans are underway for greater economies and future growth. During 1977 the transfer of SDI's Toronto computer centre workload to our London facilities began, with total integration to be accomplished by mid-1978. In addition, SDI acquired and developed for marketing the PALM System, a new ordinary life insurance system which embodies some of the latest concepts in computer technology and which will be offered to other insurance companies in Canada, Britain and the Caribbean. The extra expenses of these two projects led to a small loss for 1977.

Making full use of our human resources

We are pleased to take this opportunity to recognize the excellent achievements in 1977 of our representatives and the management staff in the District, General and Group offices. We thank, too, our managers and employees — both in regional offices and home office — who handled the

"Increase in productivity is possible because of favorable staff morale"

large volumes of new business at our usual high standards of service, with virtually no overall increase in staff.

This continuing increase in productivity is possible, in large measure, because of favorable staff morale. One yardstick of morale is our net turnover, which continues at exceptionally low levels. Another measure is a job attitude survey, used by our home and regional office staffs in 1971 and again in 1977. The survey indicates London Life personnel continue to compare very favorably with other life insurance companies in virtually every aspect of job satisfaction. At the same time, the survey helps identify areas in which further improvements will be undertaken.

New life planning and career development courses were well received in 1977, both in home and regional offices. More than 900 participated in the life planning seminars, and almost 500 in the career development courses.

We continue to broaden the usefulness of our telecommunications network, which allows instant access to our central computer from all major centres across Canada. During 1977, for example, members of our 17 mortgage offices began to take advantage of the benefits of a new mortgage inquiry system. Following a review by consultants, improvements were made during the year in the security and access systems for the computer. The security system continues to be one of the most advanced in Canada and protects the information at all times.

Late in 1977 the company began the development of a new television series, 'LIVES', in cooperation with the Global television network. Each hour-long program will focus on an individual who has witnessed or participated in a significant segment of history. Broadcasts began early in 1978 on the Global network in Ontario, and on individual stations in other centres not served by the network.

New tax measures affect policyowners, companies

In the Federal budget of March 1977, sweeping revisions were made to the taxation of life insurance policyowners and companies. In October these revisions were modified and some of the more objectionable features eliminated.

For example, in the direct taxation of policyowners, the original intention to extend to death claims the same level of tax as on surrender, was withdrawn for further study. Another provision that was withdrawn would have discontinued deductibility of policy loan interest when loans are to earn income. However, under complex new tax provisions a policyowner who takes out a policy loan may have to report some taxable income. As a result, the company must maintain extensive new records on policy loan interest.

In taxes paid by life insurance companies, changes were made to rectify the more favorable treatment for multinationals. Moreover, the indirect taxation of policyowners through a 15% tax on the company's investment income was finally withdrawn. Complex regulations needed to administer the new Income Tax Act will be available later in 1978. On life insurance policies, the general effect will be to permit the company to credit more interest in determining premiums and policyowner dividends. However, changes in the rules with respect to the amount and timing of deductible policy reserves in determining regular corporation taxes will tend to increase our total tax load. In the health branch beginning in 1978, the $10.5 million of additional policy reserves previously claimed as tax deductions must be brought into taxable income at 10% a year over 10 years; those reserves were reduced in 1977 by $3.7 million to offset increases required in regular reserves for reserve strengthening and new government requirements, and a tax liability established under the old rules as tax regulations have not yet been published to implement this budget proposal.

"Studies of the retirement income field are now under way by governments"

Further changes in financial reporting

Since introduction four years ago of our new format of financial statements, we have included a statement of net company income. Our practice has long been to indicate earnings per share credited to the shareholders' account. Beginning with this year's report and following the trend of other stock life insurance companies, we now show earnings per share by total shareholder operations represented by the net income of the non-participating life branch, health branch and shareholders' account; corresponding figures for earlier years also are shown.

Important amendments to the Canadian and British Insurance Companies Act were made during 1977. However, the coming into force of regulations was delayed for the life branch until at least 1978 because of extensive changes required in financial reporting. Both the Canadian Institute of Actuaries and the Canadian Life Insurance Association are studying these measures. With the need for virtually all life insurance companies to redetermine their dividend scales, premiums and reserves for tax purposes because of changes in the Income Tax Act, this implementation of the sweeping changes in financial reporting may be delayed for at least another year.

As discussed in last year's report, London Life is one of 17 life insurance companies whose activities on pricing and related matters are subject to control of the Anti-Inflation Board. Because of the complexities of receiving approval, we withdrew our proposed new premium scale that had been developed for 1977. However, in view of the need to improve equity and consistency among the various types of policies — particularly in line with recent experience and changes in taxation and other areas — we plan to develop a new premium scale for 1979.

We were able to improve the guaranteed insurance option benefit at the beginning of 1978; under this option, an individual policyowner may buy more insurance, within certain amounts and intervals, regardless of future health or occupation. We also were able to improve the dividend scale for 1978 for participating policies and to further enhance the interest rates for funds on deposit, as discussed elsewhere in this report. In addition, we improved the shareholders' dividend for the final quarter of 1977, from 59 cents to 62 cents a share, within the limits allowed by the Anti-Inflation Board.

Special studies of the entire retirement income field — including government pension plans — are now under way by the Federal, Quebec and Ontario governments. We are heartened indeed to see governments begin to realize the huge financial liabilities the current generation is passing on to future generations. These liabilities may prove particularly expensive if current low birth rates continue, thus leaving a relatively smaller working population to support the commitments implicit in the government pension plans as well as the indexed plans both for civil servants and members of parliament.

Joseph Jeffery — *Chairman of the Board*

Alexander H. Jeffery — *President*

Report of the Executive Vice-President and the Vice-President and General Manager

M. C. Pryce

D. S. Rudd

The past year was one of considerable achievement. We provided life and health insurance, and pension plans, to increasing numbers of Canadians. Moreover, investment earnings reached record levels and benefits increased for policyowners and beneficiaries.

At year end, we provided a total of almost $25 billion of individual and group life insurance protection, close to 9% of all life insurance coverage on Canadians. To place this achievement in perspective, London Life took 70 years after its founding in 1874 to reach the level of $1 billion of total life insurance in force; by comparison, during 1977 alone, the amount of this protection grew by close to $2.7 billion.

Some of these sales opportunities have been created, in part, by inflation. However, we realize inflation works against the best long-term interests of our company and policyowners. With this in mind, we moved to minimize the effect of inflation on our operating costs in 1977, by continuing new applications of our large-scale computer facility and further streamlining our operations.

Individual life insurance nears $17 billion

In individual life insurance, our company continues to dominate the Canadian market. At year end, we provided Canadians with a total of almost $17 billion of individual life insurance protection.

The number of individual sales in 1977 amounted to 124,100 new policies, an increase of 11% from 1976. Similarly, the volume of sales grew 13% to nearly $2.5 billion of coverage, well above the industry averages.

Part of the 1977 increase stems from an experimental offer made late in the year to a sampling of 185,000 policyowners — mostly in their thirties — who were given an opportunity to review their life insurance needs and purchase additional coverage, where required, without the normal medical examination. Thanks to the efforts of our sales staff in contacting people as a result of this offer, more than 12,000 policies, representing well over $192 million in coverage, were sold directly under the terms of the offer and further sales were made to other people of almost 4,200 policies, representing nearly $60 million of life insurance. More than 90% of these sales were included in 1977 issue and the balance will be reflected in 1978.

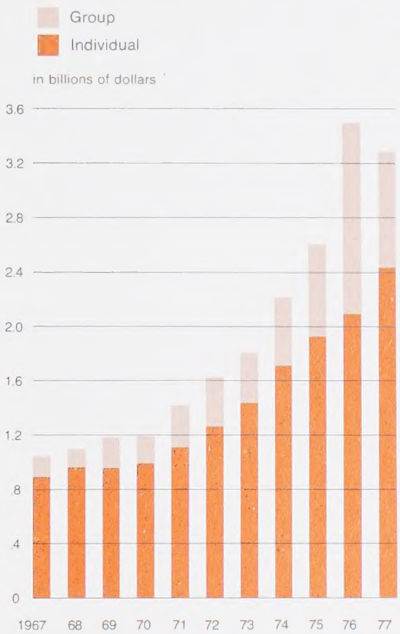
Certainly, the offer was well received by clients and helped generate enthusiasm and activity on the part of representatives, both in the General and District Sales Divisions. After further review of the overall results, we will be in a better position to evaluate the desirability of similar offers in future.

Our policy is to sell to meet the wants and needs of individuals and their families over both the medium and longer terms. More than 57% of the amount of individual insurance sold in 1977 was permanent coverage, and the balance was term.

On all individual life insurance sold by our representatives, the average policy size, the average total annual premium per policy, and the total premium per $1,000 of coverage, all continued to grow. Then, too, our sales staff have been able to take advantage of increased marketing opportunities, especially in two high-growth areas: women, and people over 30 years of age. New policy sales per representative rose a further 9% during the year and the number of representatives in the General and District Divisions rose almost 3%. All these are significant yardsticks of the success of our sales staff in improving productivity during 1977.

Our individual annuities proved particularly attractive to many clients during the year. Sales more than doubled in 1977 to $42.5 million in premium volume. Many policyowners use annuities for retirement purposes or for income averaging. We were particularly successful in the latter field whereby the policyowner spreads income tax over a period of years after receiving unusual lump sums or certain other types of taxable income.

Growth of New Life Insurance Issued



"We provided almost $25 billion of life insurance protection"

Group premiums reach $135 million

In the Group Benefits Division, premiums received during the year — excluding segregated funds — rose 16% to $135 million.

More than half this total, $70 million, was accounted for by group health. At year end, we provided health coverage to 5,924 companies, an increase of 13%. During 1977 we were able to adjust our health rates for inflation and to alter our rate structure from a national to a provincial basis.

Of the $9.4 million of new premiums in the health branch, almost ⅓ was contributed by new dental premiums. Annualized dental premiums rose to more than $12 million at the end of 1977, up 38% from 1976. During the past year, we introduced new, low-cost dental plans which we expect will be attractive to many groups not yet ready to purchase the full package of benefits.

Also in group health, annualized gross premiums for disability income rose almost $6 million to $50 million at year end. Disability payments were provided to 2,529 people, up 279 from December 1976. Our studies indicate the rate of recovery for disability claimants has slowed, particularly for those 45 years and above and for those on disability claims for several years. Recognizing this deterioration in experience, we moved during the year to strengthen our reserves for claims, drawing down our additional policy reserves built up for these contingencies.

Group life contributed almost $37 million in premium income during 1977, up 9%. If the single group that accounted for almost half the 1976 issue is excluded (and very few groups are this large), new group life sales rose 16%. Following a major study of our experience, we lowered our group life rates in 1977 although experience did deteriorate during the year. As an indication of the high growth rate of group life in recent years, the $7.6 billion in coverage provided at the end of 1977 is almost double the comparable figure of just four years earlier.

Introduced at the end of 1975, the deposit administration contract is already our most popular method of funding new group pensions and deferred profit sharing plans. During the year, these premiums received doubled to $7.6 million. More than half our sales were based on this technique, with the remainder involving group annuity and group investment contracts.

In recent years, our group plans have been quoted exclusively through our agency staff. However, beginning in 1978 for very large cases, we once again will market our group plans in cooperation with outside employee benefit consultants. In this way, we expect to expand sales, increase our public exposure and broaden the base of premium income.

New investments in 1977 total $379 million

During 1977 new investments in the life branch — excluding policy loans — totalled $379 million, a record amount and an increase of almost 47% over 1976. Growing sales in recent years, particularly of individual life insurance and annuities — together with rising mortgage repayments and prepayments in full — account in large measure for this remarkable increase.

Average gross yield of all new investments was 10%. Some $235 million was in mortgages, almost entirely to help finance homes and apartment units vitally needed by Canadians, and a further $135 million was invested in bonds. Our investment in stocks increased almost 27% through $9 million in new purchases; common and preferred stocks will be a more attractive investment under the revised Income Tax Act, since share dividends no longer will be included in taxable income of the company beginning in 1978.

This favorable return helped to further improve the earnings on our overall portfolio. While invested assets in the regular funds of the life

Interest Rates Earned

"The quality of our investment portfolio continues at the highest level"

branch grew $261 million to $2.71 billion, the net interest earnings after investment expenses rose from 7.89% to a record 8.21%.

Meanwhile segregated funds of the life branch grew $15 million to $80 million and invested assets of the health branch rose $13 million to $76 million. At year end, total assets reached $2.917 billion.

The overall quality of our investment portfolio continues at the highest level. Of the $666 million in bonds in the regular life branch, none is in default on principal or interest. In continuation of our outstanding mortgage experience during recent years, none of the 54,444 mortgage accounts was in foreclosure at the end of 1977.

Benefits rise 15% to $305 million

Benefits for policyowners and beneficiaries reached $305 million, up nearly $41 million from 1976.

The amount provided for all health insurance claims rose $15 million to almost $69 million. This reflects the substantial increase in recent years in the amount of health insurance sold and the effect of inflation on health care costs.

Total dividends grew $6 million to almost $68 million for participating policies and experience-rated group health policies. This includes provision for a new dividend scale in 1978 for individual insurance which more accurately reflects current experience, including improved interest earnings, continued low mortality and slightly higher expenses. The overall effect of the new scale is to raise total dividends paid or credited in 1978 for individual insurance by almost $2 million.

Mortality experience showed only a slight increase over the low levels of 1976 for individual coverage, but increased for group life after two very favorable years. With growth in the number of people insured and an increase in average policy size, claims rose from 10,391 to 10,632 and payments grew $9 million to $64 million. As in recent years, close to ⅔ of the deaths were from heart disease and cancer.

Annuity payments rose during 1977 by $6 million to $39 million. Meanwhile, interest granted on policy and contract funds on deposit grew $3 million to $23 million. The interest rate paid for accumulating dividends is being raised from 7% to 7¼% in 1978, and this increase is already having a significant effect on the amount of money left on deposit.

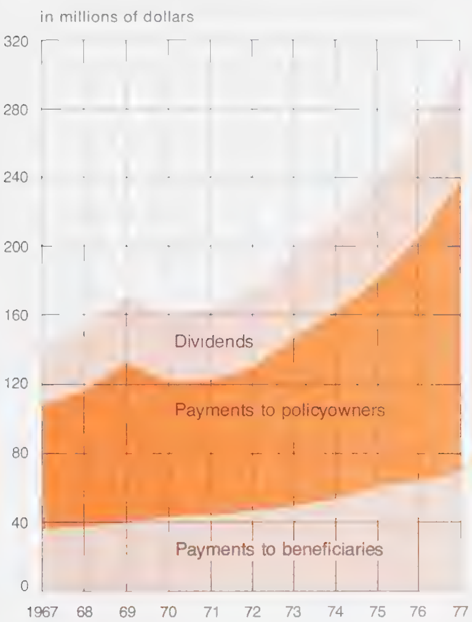
Financial results in our lines of business

In the participating lines of business, operating income decreased from $5,030,045 to a loss of $964,430. This was primarily because of the increase in group life mortality following a decrease in premium rates referred to above, giving a swing downward of $3.3 million. A special increase in reserves for disability benefits in individual participating policies accounted for a further $1.7 million, and the participating share of a special payment to fund pension improvements accounted for $1.4 million.

In the non-participating lines of business, continued low individual mortality with increasing investment earnings gave a further improvement in results for individual insurance. This increase was offset by the higher strain on earnings from placing the very substantial increase in single premium annuities on the books. Group annuities made a larger contribution to earnings.

In the health branch, deteriorating disability experience and changes in financial reporting required by the insurance act led to increases in our regular reserves; these were offset by a decrease of a corresponding amount of $3.7 million in our additional policy reserves carried for contingencies. As there is uncertainty over the tax situation, provision was made for taxes on the more conservative basis. Appropriate corrective action is being taken to restore this branch to a profitable basis of operations.

Benefits Paid to Policyowners and Beneficiaries



"A new dividend scale reflects current experience"

Overall expense rates in the company showed little change from last year, despite special salary adjustments for inflation and an increase in issue. Also, a special payment to the staff pension plan to fund a portion of our supplemental retirement allowances granted to retired staff (increased in 1977) was absorbed. Increasing investment returns from the high rates on new investments available because of inflation provide some offset to expense increases.

Preparing for future marketing opportunities

Our achievements of 1977 reflect the continuing public demand for our many products and services. They also reflect the day-to-day efforts of our sales staff across Canada and our employees, both in head office and regional offices. We congratulate each and every one for the fine efforts they put forth during the year.

Looking to the future, we expect our markets to increase both for individual and group products. In particular, we believe the removal of the Anti-Inflation Board controls will open up further sales opportunities, especially in the group field. Development continues on our long range corporate planning and we anticipate this, too, will position the company to take good advantage of growth opportunities as they occur. Population studies show that during the 1980s people 30 years and over will provide the best marketing opportunities; our sales to this age group are already increasing.

At the same time, we recognize that the keys to an increase in our market share are a rise in the size of our marketing staff, and further gains in the number of policies sold by each representative. With this in mind, we are moving to increase the number of our representatives and field managers, and to further raise the level of productivity of our entire marketing organization.

Executive Vice-President

Vice-President and General Manager

Consolidated balance sheet

ASSETS	At December 31 1977	1976
The Company has the following assets to meet its obligations to policyowners:		
Bonds and debentures	**$ 789,965,710**	$ 667,674,911
Valued at amortized cost less write-downs.		
Stocks	**40,360,505**	31,829,951
Valued at cost less write-downs.		
First mortgages	**1,740,821,475**	1,608,904,870
Amount of loans outstanding.		
Real estate:		
Income-producing properties	**6,741,342**	7,112,902
At cost less accumulated depreciation of $5,041,160 ($4,669,600 in 1976).		
Head office premises	**15,296,807**	15,633,207
At cost less accumulated depreciation of $9,117,212 ($8,760,523 in 1976).		
Loans on policies	**187,744,839**	175,282,424
These loans are fully secured by the cash value of the policies on which the respective loans are made.		
Cash	**5,311,063**	5,581,423
Electronic data processing equipment	**4,545,073**	5,589,110
At cost less accumulated depreciation of $5,619,140 ($4,522,877 in 1976).		
Premiums in course of collection	**13,745,370**	11,859,193
Accrued investment income	**30,359,869**	27,170,965
Segregated funds investments (note 4)	**80,255,001**	65,214,352
For group pensions and individual equity contracts, valued at market.		
Other assets	**2,677,111**	2,814,754
Total assets	**$2,917,824,165**	$2,624,668,062

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

AUDITORS' REPORT

To the Policyowners, Shareholders and Directors of London Life Insurance Company:

We have examined the consolidated balance sheet of London Life Insurance Company as at December 31, 1977 and the consolidated statements of income, and investment reserves and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; the reserves and other liabilities under policy contracts were determined and certified by the Company's Chief Actuary.

LIABILITIES, INVESTMENT RESERVES, CAPITAL AND RETAINED EARNINGS	At December 31 1977	1976
The liabilities which the Company has assumed are:		
Policy reserves (note 2)	**$1,948,059,313**	$1,766,421,300
This amount together with segregated funds policy reserves, future premiums and interest earnings provides for the payment of benefits promised on all policies in force.		
Other obligations to policyowners:		
Dividends due and left by policyowners to accumulate	**301,380,268**	267,434,395
Proceeds of policies left on deposit for policyowners and beneficiaries	**14,811,000**	14,754,147
Provision for dividends payable to policyowners	**66,016,003**	60,391,876
Provision for unpaid and unreported claims	**84,970,361**	65,369,157
Premiums paid in advance	**8,442,470**	8,602,487
Staff pension and insurance reserves (note 5)	**199,372,061**	172,428,352
Prepaid taxes on mortgage accounts	**15,538,047**	14,038,366
Taxes, commissions, and other accounts due and accrued	**18,195,105**	15,526,727
Segregated funds policy reserves and other liabilities (note 4)	**80,255,001**	65,214,352
For group pensions and individual equity contracts.		
Other liabilities	**12,470,583**	9,647,738
	$2,749,510,212	$2,459,828,897
The investment reserves, capital and retained earnings provide additional security for policyowners and their beneficiaries:		
Investment reserves (note 3)	**$ 42,075,000**	$ 39,775,000
Capital stock:		
Authorized, issued and fully paid — 500,000 shares of $2 par value	**1,000,000**	1,000,000
Retained earnings:		
Life branch — participating	**72,887,063**	73,851,493
— non-participating	**46,887,688**	44,537,850
Health branch	**75,235**	1,131,473
Shareholders' account	**5,388,967**	4,543,349
	$ 168,313,953	$ 164,839,165
Total liabilities, investment reserves, capital and retained earnings	**$2,917,824,165**	$2,624,668,062

In our opinion, based on our examination and the certificate of the Chief Actuary, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations for the year then ended in accordance with accounting practices prescribed or permitted by the Department of Insurance of Canada.

Clarkson, Gordon & Co.
Chartered Accountants

London, Canada, February 9, 1978.

Consolidated statement of income

	For year ended December 31	
	1977	1976
INCOME:		
Premiums (note 8)	**$454,133,718**	$393,936,266
Investment income less investment expenses of $10,498,190 ($9,526,699 in 1976)	**218,674,146**	191,311,025
	$672,807,864	$585,247,291
DISTRIBUTION:		
For policyowners and beneficiaries —		
Benefits under life insurance policies:		
Death	**$ 64,402,637**	$ 55,422,235
Disability	**1,522,899**	1,367,904
Matured endowments	**6,323,311**	6,648,696
Cash surrenders	**35,274,298**	33,742,920
Annuity benefits	**38,767,414**	32,941,955
Health insurance benefits	**68,641,930**	53,344,338
Interest on policy and contract funds	**22,742,576**	19,464,495
Additions to policy reserves (note 2)	**181,638,013**	146,333,458
Additions to staff pension and insurance reserves	**26,943,709**	22,057,034
Additions to segregated funds policy reserves	**15,024,360**	15,953,062
For operating expenses —		
New insurance and field service to policyowners	**67,901,013**	61,511,328
Head and regional offices	**53,113,315**	47,531,016
	$582,295,475	$496,318,441
Income from operations before dividends to policyowners and taxes	**$ 90,512,389**	$ 88,928,850
Dividends to policyowners	**$ 67,672,066**	$ 61,639,476
Premium taxes	**6,427,386**	5,399,822
Income taxes	**11,743,149**	11,567,201
	$ 85,842,601	$ 78,606,499
Net income	**$ 4,669,788**	$ 10,322,351
Analysis of net income:		
Investment reserves	**$ 2,300,000**	$ 2,300,000
Life branch — participating	**(964,430)**	5,030,045
— non-participating	**2,349,838**	2,138,840
Health branch	**(1,056,238)**	(889,234)
Shareholders' account	**2,040,618**	1,742,700
Net income	**$ 4,669,788**	$ 10,322,351
Earnings per share (note 7)	**$ 6.67**	$ 5.98

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

CERTIFICATE OF THE CHIEF ACTUARY

Policy reserves for annual premium life insurance policies have been determined on the net level premium basis and are in excess of the minimum modified reserves permitted as an alternative for such policies under the Canadian and British Insurance Companies Act. The total policy reserves shown in the consolidated balance sheet at December 31, 1977, including such reserves in the segregated funds, are in excess of those required under the Act and, in my opinion, make good and sufficient provision for all unmatured obligations of the Company guaranteed under the terms of its policies. The reserves for and method of funding of the staff insurance and pension benefits have been determined using assumptions that are adequate and appropriate and methods consistent with the sound principles established by precedents or common usage within the actuarial profession.

L. B. FEWSTER, F.S.A., F.C.I.A.

February 9, 1978

Consolidated statement of investment reserves and retained earnings

For year ended December 31, 1977

	Investment reserves	Life branch participating	Life branch non-participating	Health branch	Shareholders' account (note 6)
Net income before transfers to shareholders' account	$ 2,300,000	$ 729,701	$ 2,449,838	$(1,056,238)	$ 246,487
Transfers to shareholders' account		(1,694,131)	(100,000)		1,794,131
Net income	$ 2,300,000	$ (964,430)	$ 2,349,838	$(1,056,238)	$2,040,618
Shareholders' dividends					(1,195,000)
	$ 2,300,000	$ (964,430)	$ 2,349,838	$(1,056,238)	$ 845,618
Balance, beginning of year	$39,775,000	$73,851,493	$44,537,850	$ 1,131,473	$4,543,349
Balance, end of year	$42,075,000	$72,887,063	$46,887,688	$ 75,235	$5,388,967

Notes to consolidated financial statements

1. Accounting principles

The accounts of the Company's wholly owned subsidiaries, LONLIFE Data Services Limited and SDI Associates Limited have been consolidated in the accompanying financial statements.

The life and health insurance branches are combined in the accompanying financial statements which have been prepared in accordance with accounting principles prescribed or permitted by the Department of Insurance of Canada. The Department's requirements emphasize liquidity and solvency. Some of the more significant accounting practices are set out below:

(i) certain assets, such as office furniture and fixtures, amounts receivable from sales representatives and other non-admitted assets, are accounted for as expenses in the year acquired;

(ii) the costs of acquiring business are accounted for as expenses in the year incurred rather than over the periods expected to be benefited;

(iii) income taxes are calculated using the taxes payable method;

(iv) the Company has equity investments in the following Canadian real estate companies:

Toronto College Street Centre Limited
Seachel Accommodations Limited
Leaside Towers Apartments Limited

The investment in these companies is carried under the equity method as prescribed by the Department of Insurance of Canada;

(v) depreciation is provided as follows:

(a) electronic data processing equipment is depreciated on a straight-line basis at 12½% per annum;

(b) head office properties are depreciated at $400,000 per annum;

(c) under income-producing real estate — residential properties are depreciated on a declining balance basis at 5% per annum and commercial properties are depreciated on a sinking fund basis at various rates determined by the terms of the leases.

2. Policy reserves

The policy reserves are calculated on the net level premium basis. Under this basis, acquisition expenses are to be recovered throughout the premium period, whereas, as indicated in note 1 above, the costs of acquiring business must be accounted for as expenses in the year incurred. Net level premium reserves are in excess of the minimum modified reserves permitted by the Canadian and British Insurance Companies Act as an alternative to net level premium reserves for life insurance policies. Such minimum modified reserves would provide a partial deferral of the impact of the high first year expense through permitting a reduction from the net level premium reserve in the first year compensated for by an increase in the net premium required for the balance of the premium period.

In 1977 adjustments to policy reserves caused by changes in valuation bases have been included in the additions to policy reserves in the income statement. The adjustments amounted to $1,280,782 for the life branch participating and

Notes to consolidated financial statements (continued)

$349,438 for the life branch non-participating reserves. For comparative purposes the 1976 income statement has been adjusted to include the changes in valuation basis of $116,967 for life branch participating reserves.

3. Asset valuation and investment reserves

The investment reserves amounting to $42,075,000 represent appropriations of earnings to provide for fluctuations in asset values.

At December 31, 1977, bonds and stocks are shown in the balance sheet at values which are not in excess of amortized costs, but in the aggregate exceed the values permitted by the Canadian and British Insurance Companies Act by approximately $600,000, provision for which is included in the investment reserves.

4. Segregated funds

The Company has four separate segregated funds, three for group pension and group deferred profit sharing plans and one for individual insurance policies. These funds have been set up in accordance with Section 81 of the Canadian and British Insurance Companies Act so that the Company may issue policies whose reserves vary in amount depending on the market value of a specified group of assets.

5. Staff pension reserves

Increased pension benefits for employees effective from January 1, 1973 resulted in an unfunded liability with respect to the plan to be amortized by special payments over 16 years to 1988. Based on the valuation of the plan performed in 1977 and after recognizing special payments made during the year, the outstanding unfunded liability of the plan has been reduced to $13,781,000 from $17,477,000 at December 31, 1976.

In 1977 the Company amended the plan to provide for increased pensions to employees retired prior to January 1, 1973, and this was fully funded by a Company payment of $2,013,000 during the year.

10 years of growth

(in thousands of dollars except per share calculations)

	1977	1976	1975
New life insurance issued	**$ 3,290,398**	$ 3,495,320	$ 2,610,496
Individual policies	**2,428,514**	2,146,983	1,922,234
Group policies	**861,884**	1,348,337	688,262
Total life insurance in force	**$24,547,466**	$21,861,630	$18,946,859
Individual policies	**16,917,324**	15,240,943	13,753,748
Group policies	**7,630,142**	6,620,687	5,193,111
Number of life insurance policies in force — individual	**1,800,075**	1,751,723	1,714,997
— group	**6,183**	5,512	4,856
Total assets	**$ 2,917,824**	$ 2,624,668	$ 2,392,256
Rate of return on investments (life branch excluding segregated funds)	**8.21%**	7.89%	7.51%
Retained earnings	**$ 125,239**	$ 124,064	$ 117,162
Premiums	**$ 454,134**	$ 393,936	$ 350,592
Total benefits to policyowners and beneficiaries	**$ 305,347**	$ 264,572	$ 235,949
Dividends to policyowners	**$ 67,672**	$ 61,639	$ 57,047
Earnings per share*	**$ 6.67**	$ 5.98	$ 6.72
Dividends per share**	**$ 2.39**	$ 2.24	$ 2.20

*Commencing in 1969 the total earnings of the Company were subject to corporate income tax in accordance with new taxation regulations. Previously, income tax was levied only on the earnings in the shareholders' account.

**In 1972 there was included a special dividend of $2.38.

6. Shareholders' account

Distributions of earnings to policyowners and shareholders are determined by the Board of Directors. The shareholders' portion of the distributable earnings in the life branch participating account is limited to a maximum of 2½% by the Canadian and British Insurance Companies Act. This amounted to $1,694,131 in 1977 after dividends to participating policyowners of $66,071,105. In addition to the amount credited above, the shareholders' account was credited with $246,487 of investment earnings and $100,000 was transferred from the life branch non-participating account.

7. Earnings per share

Earnings per share have been calculated on the basis of 500,000 shares and the aggregate of the net incomes of the life branch non-participating, health branch and shareholders' account totalling $3,334,218 in 1977 and $2,992,306 in 1976.

In previous years, earnings per share credited to shareholders' account were reported, which amounted to $4.08 in 1977, compared to $3.49 in 1976.

8. Premiums

This income was derived as follows:

	1977	1976
Life insurance —		
Participating	$239,959,687	$223,178,134
Non-participating	31,712,495	28,578,999
Annuities —		
Participating	16,130,398	13,565,643
Non-participating	72,883,514	48,869,072
Settlement	3,178,629	2,611,002
Health insurance	70,471,776	60,269,316
Staff funds —		
Life and health	3,721,151	3,517,773
Pension	16,076,068	13,346,327
	$454,133,718	$393,936,266

9. Anti-Inflation Program

The Company is of the opinion that it is in compliance with the regulations which control prices and profits, employee compensation and shareholder dividends as required under the federal government's Anti-Inflation Program presently scheduled to be in force to December 31, 1978.

10. Account classifications

The groupings of accounts for the 1976 year have been changed to conform with those adopted for 1977.

1974	1973	1972	1971	1970	1969	1968
$ 2,207,821	$ 1,793,290	$ 1,622,372	$ 1,405,056	$ 1,193,396	$ 1,184,220	$ 1,093,467
1,703,819	1,442,299	1,255,333	1,101,537	986,761	959,815	967,622
504,002	350,991	367,039	303,519	206,635	224,405	125,845
$16,957,268	$14,995,521	$13,449,237	$12,353,618	$11,417,268	$10,820,297	$10,181,437
12,394,212	11,162,969	10,138,817	9,350,581	8,780,956	8,369,438	7,948,408
4,563,056	3,832,552	3,310,420	3,003,037	2,636,312	2,450,859	2,233,029
1,676,838	1,639,161	1,600,562	1,573,539	1,557,762	1,553,214	1,548,500
4,517	4,343	4,223	4,265	4,208	4,148	4,051
$ 2,187,981	$ 2,023,496	$ 1,868,813	$ 1,731,395	$ 1,628,857	$ 1,546,439	$ 1,484,929
7.30%	7.04%	6.81%	6.63%	6.52%	6.37%	6.18%
$ 109,517	$ 109,150	$ 108,731	$ 108,109	$ 104,647	$ 99,042	$ 94,435
$ 319,859	$ 285,101	$ 246,352	$ 222,468	$ 206,420	$ 206,473	$ 200,310
$ 212,857	$ 194,126	$ 174,119	$ 163,521	$ 159,469	$ 169,321	$ 152,456
$ 52,123	$ 49,864	$ 45,187	$ 42,416	$ 39,465	$ 36,858	$ 36,259
$ 7.39	$ 6.05	$ 8.88	$ 8.75	$ 8.97	$ 4.96	$ 8.28
$ 2.00	$ 1.80	$ 3.98	$ 1.40	$ 1.20	$ 1.00	$ .94

Administrative officers

Actuarial
J. C. McKibbon
Actuary

I. R. Taylor
Actuary

G. G. Cameron
Research Actuary

Administration Regional Offices
R. L. Low
Administration Executive Regional Offices

Claims
R. H. Hamill
Claims Executive

Communication Services
J. B. Chick
Communication Services Executive

Comptroller
J. C. A. Macdonald
Comptroller

Group
R. E. Brown
Group Administration Executive

J. A. Mereu
Group Actuary

Information Systems
W. H. Thomson
Information Systems Executive

Insurance Services
S. P. Geddes
Insurance Services Executive

Marketing
D. A. Smith
Director of Marketing

T. Orr
Director of Consumer Affairs and Marketing Administration

District Sales Division
A. E. Bennett
Director of Marketing

C. G. Chenier
Associate Director of Marketing (Montreal)

W. H. Gleed
Associate Director of Marketing (Toronto)

General Sales Division
D. K. Shales
Director of Marketing

J. A. Fowler
Associate Director of Marketing

Group Benefits Division
W. D. Jackson
Director of Marketing

Medical
J. S. Winder, M.D.
Medical Director

J. B. Walker, M.D.
Associate Medical Director

Mortgage
R. D. Abercromby
Mortgage Executive

Personnel
W. A. McCoy
Personnel Executive

Securities
G. A. Gloin
Securities Executive

Staff Health
N. J. England, M.D.
Staff Health Physician

Underwriting and Issue
M. E. Comfort
Underwriting Executive

Regional offices

London Life maintains a network of 130 offices across the nation. These offices provide service for both individual and group coverage, and for the administration of London Life's extensive mortgage operations.

British Columbia
New Westminster
Vancouver (7 offices)
Victoria

Alberta
Calgary (6 offices)
Edmonton (4 offices)
Lethbridge
Medicine Hat

Saskatchewan
Moose Jaw
Regina
Saskatoon

Manitoba
Winnipeg (5 offices)

Ontario
Barrie
Belleville
Brampton (2 offices)
Brantford
Brockville
Cambridge
Chatham
Cornwall
Guelph
Hamilton (6 offices)
Kingston (2 offices)
Kirkland Lake
Kitchener (2 offices)
London (5 offices)
Mississauga
Niagara Falls
North Bay
Orillia
Oshawa (2 offices)
Ottawa (5 offices)
Peterborough
Pickering
St. Catharines (3 offices)
St. Thomas
Sarnia
Sault Ste. Marie
Stratford
Sudbury (2 offices)
Thunder Bay
Timmins
Toronto (17 offices)
Welland
Windsor (2 offices)
Woodstock

Quebec
Montreal (18 offices)
Rouyn-Noranda
Sherbrooke
St. Hyacinthe
Val d'Or

New Brunswick
Moncton (2 offices)
Saint John

Nova Scotia
Cape Breton
Dartmouth
Halifax (3 offices)

London Life

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